

Stanford In the Hot Seat

More embarrassing indirect cost charges and allegations of coziness fly at a congressional hearing

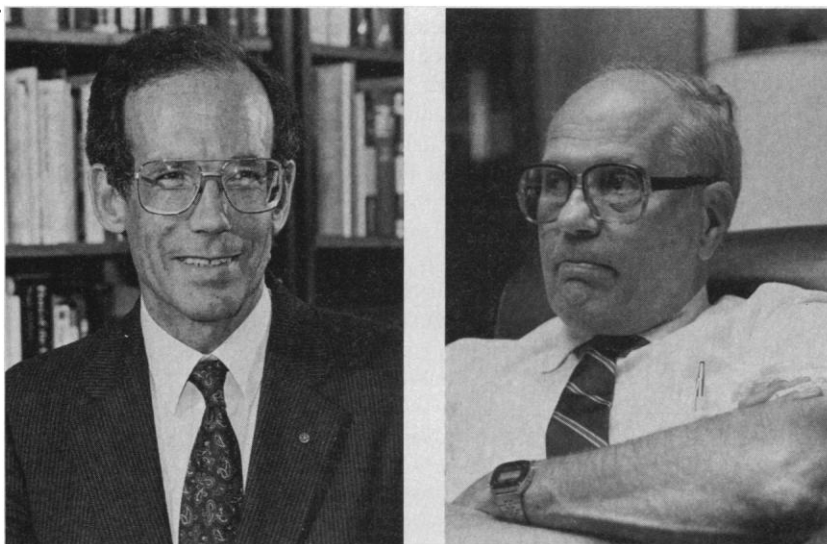
STANFORD UNIVERSITY, PERSONIFIED BY ITS beleaguered president Donald Kennedy, got a thorough grilling last week from Representative John Dingell (D-MI) and his subcommittee over its embarrassing—and in some cases illegal—charges for overhead costs on federal research grants. But it may not be the only university to feel the heat. Dingell aides say that Stanford's accounting practices and questionable charges—which include depreciation of a luxury yacht, \$64,000 charged from 1986 to 1990 toward a private residence for the university's chancellor who retired in 1968 and died in 1985, and \$186,000 to run a Stanford-owned and operated shopping center—have prompted the subcommittee to launch a broader inquiry into university indirect costs. At Dingell's direction, the General Accounting Office (GAO) will audit the Harvard Medical School, the Massachusetts Institute of Technology, the University of California at Berkeley, and perhaps Johns Hopkins University, while subcommittee staff members will comb through the books at the University of Pennsylvania and the University of Southern California.

Though Stanford's well-publicized extravagances got most of the attention at Dingell's long-awaited hearing last week, these items in fact make up only a small fraction of all the overhead charges that auditors have challenged at Stanford. A controversial estimate by Office of Naval Research (ONR) accountant Paul Biddle

holds that the university may have overcharged the government by as much as \$200 million over the past 10 years—a figure university officials consider outrageous. But Biddle and auditors from GAO and the Defense Contract Auditing Agency (DCAA) testified that, in what Biddle calls a “cozy relationship” between ONR and Stanford officials, the university negotiated more than 100 exemptions from federal cost-recovery rules—85 of which are still in effect—and

that many of these exceptions are highly questionable. For example, one special agreement for reimbursing utility costs assumes that buildings used for federal research consume 5.8 times as much electricity as those used primarily for university-sponsored research or teaching.

Last month, a report by the ONR Inspector General failed to substantiate Biddle's \$200 million estimate or his allegation of coziness, although it did agree his concerns about overbilling had “some validity.” At the hearing, Dingell went looking for his own figure. Under his questioning, DCAA deputy director Fred Newton estimated that since 1983, Stanford's special exceptions have totaled \$15 million to \$18 million each year. By adding what Newton described as \$1 million to \$2 million a year in unallowable charges such as the shopping center, Dingell quickly estimated that Stanford's accounting practices cost the government between \$16 million and \$20 million a year.



Cool under fire. Stanford president Donald Kennedy (left) claimed John Dingell's hearing “brought forth no evidence of wrongdoing at Stanford.”

It is difficult, if not impossible, to tell what fraction of these charges is really justified. Milton Socolar, a special assistant to the controller general at GAO, told the subcommittee that ONR had not subjected any of Stanford's exemptions to either audit or legal review—both of which are required by law. Then Socolar added that he believes many of Stanford's special agreements are “based on unsupportable assumptions.”

DCAA's Newton amplified this theme.

He said Stanford's exemptions “are not in the government's best interest.... It seems the criteria used [to justify the exceptions] was whatever would enhance...Stanford revenues.” Newton added that Stanford had “not been cooperative” in answering DCAA questions about various expenses. As a result of these problems, DCAA has recommended canceling all of Stanford's exemptions, Newton said, and has suggested that the university's 1991 overhead rate be reduced to 52%—18 points lower than the 70% rate imposed last February by ONR.

In response, Stanford's Kennedy told the subcommittee: “We have a problem, and we are taking it seriously.” As evidence, he told the subcommittee that the university had recently hired the Arthur Andersen consulting firm to help it revise its accounting procedures, adding that the university had returned the money from inappropriate charges as well as nearly \$500,000 in lawful but unseemly expenses. But Kennedy disputed the implication that Stanford's proliferation of exceptions amounted to a “cozy” relationship with ONR, describing them as “binding agreements negotiated in good faith.” He also denied Newton's allegation that Stanford was stonewalling federal auditors, complaining that the Stanford controller's office was in a state of “virtual

gridlock” as a result of 3752 requests for information from 32 auditors over the last 5 months. And in a written statement released after the hearing, Kennedy seemed, if anything, uncompromising, emphasizing that “the hearing brought forth no evidence of wrongdoing at Stanford.”

Stanford's experience has already prompted some schools to scrub their indirect costs: Newton testified that Caltech recently withdrew \$500,000 of claimed expenses for a trustee retreat, country

club memberships, and other entertainment expenses. Such preemptive disclosures suit Dingell just fine. Frightening institutions into cleaning their own houses has long been his chief strategy, which he employed effectively in a series of probes of defense contractors and the generic drugs industry. And he is unlikely to get bored with this issue until he is convinced that universities have absorbed Stanford's lesson.

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